

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch**

**RESOLUTION W-4944  
April 4, 2013**

**R E S O L U T I O N**

**(RES. W-4944), EAST PASADENA WATER COMPANY  
ORDER AUTHORIZING A RATE BASE OFFSET REVENUE INCREASE,  
PRODUCING AN INCREASE IN GROSS ANNUAL REVENUES OF  
\$112,218 OR 4.79% TO CURRENT APPROVED GROSS REVENUES.**

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**SUMMARY**

East Pasadena Water Company filed Advice Letter 77 on October 3, 2012, seeking a rate base offset of \$1,423,000 for the completion of a new groundwater well which would result in an increase in annual revenues of \$116,193 or 4.96%.

This resolution grants East Pasadena Water Company a revised rate base offset amount of \$1,401,306 producing an increase in annual revenues of \$112,218 or 4.79%. The authorized revenue increase will not result in a rate of return greater than that last authorized for East Pasadena Water Company.

**BACKGROUND**

East Pasadena Water Company (EPWC) is a class B, single-district, water company that provides metered rate service to 2,946 customers within the San Gabriel Valley and provides water distribution to parts of the cities of Arcadia, Temple, Pasadena, and unincorporated Los Angeles.

On November 7, 2011, EPWC filed Application No. 11-11-010 seeking authority to borrow \$1.15 million of long-term notes to build an additional well in order to obtain groundwater from two adjudicated groundwater basins and to avoid having to purchase water from nearby agencies. The loan consists of \$900,000 from its parent company California Michigan Land and Water Company and \$250,000 from Professional Business Bank. EPWC's request was granted by Decision No. 12-03-009, dated March 8, 2012, which authorized EPWC to (1) issue new notes in the amount of

\$1.15 million for terms of more than one year in order to build a new well, fund its capital expenditure plans for the period 2011 through 2013, and make loan payments and refund advances and (2) granted authority to sell, lease, assign, mortgage, or otherwise dispose of or encumber its utility property as part of issuing the secured notes.

The present rates became effective on May 23, 2012, by approval of Advice Letter (AL) 76, which authorized a Consumer Price Index (CPI) increase of \$68,245 or 3.0%. The last general rate case (GRC) for EPWC was granted on November 10, 2011, pursuant to Res. W-4892, which authorized an increase in revenues of \$180,994 or 8.64%.

EPWC filed AL 77 on October 3 2012, seeking authority under General Order 96-B (GO 96-B), Water Industry Rules 7.3.3 (8), and Section 454 of the Public Utilities Code to increase its rates by \$116,193 or 4.96% for a rate base offset of \$1,423,000 for the completion of a new groundwater well numbered 11.

The water system primarily consists of three active wells numbered 7 (W7), 8 (W8) and 11 (W11), a backup well 9 (W9), as well as four reservoirs, and three booster stations. W11, the subject of this advice letter, is the replacement well for W9 in the main San Gabriel Basin. The new W11 is also located on the same property as W9.

W9 has historically provided 80% of EPWC's needs. In recent years, W9 has experienced numerous breakdowns and has become less reliable, causing EPWC to purchase water from the Cities of Arcadia and Pasadena, making the drilling of a new well necessary. EPWC indicates its intention to keep W9 as an active stand-by well for W11, to improve the reliability and flexibility of the system. W9 is now operated on an as needed basis as the Main San Gabriel Basin Water Master has stipulated that W9 and W11 not be operated at the same time. The utility also maintains three emergency interconnections with the neighboring water utilities—of the Cities of Pasadena, Arcadia and the Sunny Slope Water Company.

### **NOTICE AND PROTEST**

On November 16, 2012, a notice of the proposed rate increase was published in the Pasadena Star News. AL 77 was also served, in accordance with GO 96-B, to adjacent utilities and persons on the general service list. No protests were received by the Division of Water and Audits (DWA).

## **DISCUSSION**

EPWC provided DWA with invoices and documentation related to the construction of W11. During DWA's review of these invoices, EPWC found some discrepancies in its invoices which resulted in a reduction in the construction cost of W11 from that which was originally filed for from \$1,423,000 to \$1,401,306, or by a total of \$21,694.

DWA's review of the invoices and documentation associated with the construction of W11 confirms that: (1) the cost recovery requested for the capital improvements meets the earnings test and EPWC will not exceed its last authorized Rate of Return (ROR) (see Appendix A), (2) W11 has been completed and is now used and useful, (3) EPWC's requested additional revenue calculation is correct and (4) DWA verified that construction costs were incurred and payment was made to contractors.

DWA reviewed the Department of Public Health's (DPH) Permit Amendment Number 1910020PA-002, dated May 2012, to confirm that W11 is operational and is in compliance with DPH requirements. Based on the review of the DPH permit and review of the project expenditures, DWA finds \$1,401,306 for the capital improvements associated with W11 as prudent for inclusion into the rate base.

Starting with the last adopted revenue requirement of \$2,274,827 and expenses of \$1,549,426 from Resolution W-4892 for Test Year 2011, EPWC escalates these amounts by 3% or \$68,245 and \$46,483 respectively to reflect the Consumer Price Index (CPI) adjustment of 3% granted by AL 76, effective June 12, 2012--for total operating revenue of \$2,343,072 and an escalated expense amount of \$1,595,909.

Actual recorded expenses for 2011 are \$1,940,002 and include additional expenses for purchased water due to the inability of W9 to meet system demand. There is also a corresponding decrease in the purchased power expense.

EPWC's last adopted ROR was 10.80% and reflected a capital structure composed of 100% equity. To complete W11, EPWC borrowed \$1,150,000 from lenders as described above. Based on this revised capital structure, EPWC adjusted its last authorized ROR downward to 9.18%. Using this reduced ROR, EPWC calculated the additional revenue required by the increase in rate base due to the inclusion of W11. Factoring in additional property taxes of \$14,250—applied at a rate of 1.0169% against the project cost of \$1,401,306. Additional depreciation was calculated at \$50,727 using a depreciation rate of 3.62%.

EPWC computes the new investment to result in a total increase in its authorized revenue requirement of \$112,218 using the above mentioned adjustments for current revenue, escalated expenses and reduced a ROR.

DWA has reviewed EPWC's methodology for calculating its requested revenue requirement and finds EPWC's request for additional revenue of \$112,218 reasonable. DWA's summary of earnings is contained in Appendix A. DWA uses actual 2011 expenses of \$1,940,002, along with EPWC's revenue request of \$2,459,265, to determine the resulting ROR of 3.35%--well below the adjusted, allowable ROR of 9.18%.

DWA's recommended rates are contained in Appendix B of this resolution, and are based on DWA's recommended revenue requirement and the adopted rate design in Res. W-4892.

### **COMPLIANCE**

There are no outstanding compliance matters.

### **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

### **FINDINGS**

1. East Pasadena Water Company (EPWC) filed Advice Letter 77 on October 3, 2012, seeking a rate base offset of \$1,423,000 and an increase in annual revenues of \$116,193 or 4.96% EPWC revised its rate base offset amount of \$1,401,306 producing an increase in annual revenues of \$112,218 or 4.79%
2. EPWC is a class B, single-district, water company that provides metered rate service to 2,946 customers within the San Gabriel Valley and provides water distribution to parts of the cities of Arcadia, Temple, Pasadena, and unincorporated areas of Los Angeles.
3. The present rates for EPWC became effective on May 23, 2012, by approval of AL 76, which authorized a Consumer Price Index (CPI) increase of \$68,245, or 3%.
4. The last general rate case for EPWC was granted on November 10, 2011, by Resolution W-4892 which authorized an increase in revenues of \$180,994 or 8.64%.

5. The EPWC water system primarily consists of three active wells numbered 7 (W7), 8 (W8) and 11 (W11), a backup well numbered 9 (W9), four reservoirs, and three booster stations.
6. W11, the subject of this advice letter, is the replacement well for W9 in the main San Gabriel Basin.
7. W9 is now operated on an as needed basis.
8. The Main San Gabriel Basin Water Master has stipulated that W9 and W11 not be operated at the same time.
9. W9 has historically provided 80% of EPWC's needs.
10. W9 has experienced numerous breakdowns and has become less reliable, causing EPWC to purchase water from the cities of Arcadia and Pasadena.
11. The requested cost recovery associated with W11 does not exceed the last authorized rate of return for the utility.
12. DWA reviewed the Department of Public Health's (DPH) Permit Amendment Number 1910020PA-002, dated May 2012, to confirm that W11 is operational and is in compliance with DPH requirements.
13. W11 has been completed and is currently used and useful.
14. DWA reviewed select invoices from the W11 construction costs to verify costs incurred and to confirm payments to contractors.
15. DWA is satisfied that the invoices support W11 expenditures.
16. EPWC's additional revenue calculation is correct.
17. The cost recovery requested for the capital improvements meets the earnings test and EPWC does not exceed its last authorized rate of return.
18. DWA finds \$1,401,306 for the capital improvements associated with W11 as prudent for inclusion into rate base.
19. DWA has reviewed EPWC's methodology for calculating its requested revenue requirement and finds EPWC's request for additional revenue of \$112,218 reasonable.
20. There are no outstanding compliance matters.
21. AL 77 was served in accordance with General Order 96-B on November 16, 2012. No protests were received by DWA.

22. This is an uncontested matter in which the resolution grants the relief requested.
23. DWA's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
24. The rates recommended by DWA (Appendix B) are reasonable and should be adopted.

**THEREFORE IT IS ORDERED THAT:**

1. East Pasadena Water Company is authorized to file a supplemental advice letter incorporating the rate schedules attached to this resolution as Appendix B, and to concurrently cancel its presently effective Schedule 1, General Metered Service; and Schedule 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 28, 2013; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

# **APPENDIX A** **East Pasadena Water Company** **Summary of Earnings**

|                                  | Authorized<br>By W-4892<br>(plus 3% CPI)                     | Actual 2011         | Rate Base<br>Offset                     | Earnings Test at<br>Division<br>Recommended Rates          |
|----------------------------------|--|---------------------|---|--|
| <u>Item</u>                      | <u>Adopted TY 2011<br/>Resolution W-4892<br/>plus 3% CPI</u> | <u>Actual 2011</u>  | <u>Rate Base Offset<br/>Adjustments</u> | <u>Earnings Test<br/>at Division<br/>Recommended Rates</u> |
| <b><u>Operating Revenue</u></b>  |  |                     |   |  |
| General Metered Sales            | \$ 2,323,957   | \$ 2,117,721        |   | \$ 2,435,260   |
| Private Fire                     | \$ 19,115  | \$ 17,613           |   | \$ 20,030  |
| Other                            | \$ -   | \$ 3,018            |   |  |
| <b>Total:</b>                    | <b>\$2,343,072</b>   | <b>\$2,138,352</b>  |   | <b>2,455,290</b>   |
| <b><u>Operating Expenses</u></b> |  |                     |   |  |
| Purchased Water                  | \$6,834  | \$370,220           | \$                                      | 370,220  |
| Purchased Power                  | \$187,834  | \$155,784           | \$                                      | 155,784  |
| Other Volume Related Expenses    | \$209,728  | \$27,546            | \$                                      | 27,546   |
| Employee Labor                   | \$270,791  | \$253,317           | \$                                      | 253,317  |
| Materials                        | \$43,455   | \$52,995            | \$                                      | 52,995   |
| Contract Work                    | \$87,666   | \$73,222            | \$                                      | 73,222   |
| Transportation Expenses          | \$36,539   | \$66,124            | \$                                      | 66,124   |
| Other Plant Maintenance          | \$25,895   | \$22,739            | \$                                      | 22,739   |
| Office Salaries                  | \$110,653  | \$124,607           | \$                                      | 124,607  |
| Management Salaries              | \$191,114  | \$231,286           | \$                                      | 231,286  |
| Employee Benefits                | \$106,006  | \$138,735           | \$                                      | 138,735  |
| Uncollectibles Expense           | \$2,976  | \$5,831             | \$                                      | 5,831  |
| Office Services & Rentals        | \$51,049   | \$65,948            | \$                                      | 65,948   |
| Office Supplies & Expenses       | \$17,936   | \$24,734            | \$                                      | 24,734   |
| Professional Services            | \$44,021   | \$116,606           | \$                                      | 116,606  |
| Insurance                        | \$93,325   | \$118,130           | \$                                      | 118,130  |
| Regulatory Commission Expense    | \$11,348   | \$31,985            | \$                                      | 31,985   |
| General Expenses                 | \$52,256   | \$60,193            | \$                                      | 60,193   |
| <b>Subtotal</b>                  | <b>\$ 1,549,426</b>  | <b>\$ 1,940,002</b> |   | <b>\$ 1,940,002</b>  |
| Depreciation                     | \$ 211,500   | \$ 246,119          | \$ 50,727                               | \$ 262,227   |
| Taxes other than Income          | \$ 78,904  | \$ 81,134           | \$ 14,250                               | \$ 93,154  |
| Income Taxes                     | \$ 173,279   | \$ 800              |   | \$ 40,955  |
| <b>Total Deductions</b>          | <b>\$2,013,109</b>   | <b>\$2,268,055</b>  | <b>\$64,977</b>                         | <b>\$2,336,338</b>   |
| <b>Net Revenue</b>               | <b>\$329,963</b>   | <b>-\$129,703</b>   |   | <b>\$118,952</b>   |
| <b><u>Rate Base</u></b>          |  |                     |   |  |
| Average Plant                    | \$ 7,870,287   | \$ 8,631,545        | \$ 1,401,306                            | \$ 9,271,593   |
| Ave. Accumulated Depreciation    | \$ 4,169,873   | \$ 4,660,582        |   | \$ 4,221,386   |
| <b>Net Plant</b>                 | <b>\$ 3,700,414</b>  | <b>\$ 3,970,963</b> |   | <b>\$ 5,050,207</b>  |
| <b><u>Less</u> Advances</b>      | <b>\$ 5,095</b>  | <b>\$ 4,543</b>     |   | <b>\$ 5,095</b>  |
| Contributions                    | \$ 585,328   | \$ 1,027,690        |   | \$ 585,328   |
| Deferred Income Tax              | \$ 806,629   | \$ 921,781          | \$ 224,396                              | \$ 1,031,025   |
| Unamortized Investment           | \$ 6,233   |                     |   | \$ 6,233   |
| <b>Plus</b> Working Cash         | <b>\$ 126,193</b>  | <b>\$ 126,193</b>   |   | <b>\$ 126,193</b>  |
| Materials & Supplies             | \$ -   | \$ -                |   | \$ -   |
| CWIP                             | \$ -   | \$ 500,839          |   | \$ -   |
| <b>Rate Base:</b>                | <b>\$ 2,423,322</b>  | <b>\$ 2,143,196</b> |   | <b>\$ 3,548,772</b>  |
| <b><u>Rate of Return</u></b>     | <b>10.80%</b>  | <b>-6.05%</b>       |   | <b>3.35%</b>   |
|                                  | (without CPI ADJ)  |                     |   | (actual exps., ADJ revenues)                               |

**APPENDIX B**  
**(page 1 of 2)**  
**East Pasadena Water Company**

**Schedule No. 1**

**GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The territory within and adjacent to the Cities of Arcadia and Temple City and adjacent to the Cities of Pasadena and San Gabriel, Los Angeles County, and as described on the service area map.

**RATES**

Quantity Rates:

|                                 |         |     |
|---------------------------------|---------|-----|
| All water used, per 100 cu. ft. | \$1.900 | (I) |
|---------------------------------|---------|-----|

**Per Meter Per Month**

Service Charge:

|     |                      |          |     |
|-----|----------------------|----------|-----|
| For | 5/8 x 3/4-inch meter | \$ 13.92 | (I) |
| For | 3/4-inch meter       | \$ 20.87 |     |
| For | 1-inch meter         | \$ 34.78 |     |
| For | 1-1/2-inch meter     | \$ 69.56 |     |
| For | 2-inch meter         | \$111.29 |     |
| For | 3-inch meter         | \$208.69 |     |
| For | 4-inch meter         | \$347.81 | (I) |

The Service Charge is applicable to all service. It is a readiness to serve charge to which is added the monthly charge, computed at the Quantity Rate, for water used during the month.

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.



**APPENDIX B**  
**(page 2 of 2)**  
**East Pasadena Water Company**

**Schedule No. 4**

**PRIVATE FIRE PROTECTION SERVICE**

**APPLICABILITY**

Applicable to all privately owned fire protection systems.

**TERRITORY**

The territory within and adjacent to the Cities of Arcadia and Temple City and adjacent to the Cities of Pasadena and San Gabriel, Los Angeles County, and as described on the service area map.

**RATES**

Per Service Per Month  
Charge

For each inch of diameter of fire  
Sprinkler service connection\_\_\_\_\_

\$12.60 (I)